



**The State of New Hampshire
Insurance Department**

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**Roger A. Sevigny
Commissioner**

**Alexander K. Feldvebel
Deputy Commissioner**

ADMINISTRATIVE ORDER

**Docket No.: Ins 05-039-AP
In Re: Small Employer Health Reinsurance Pool
2005 Chapter 225, RSA 420-K**

WHEREAS, RSA 420-K established a nonprofit entity to be known as the "New Hampshire Small Employer Health Reinsurance Pool", ("Pool"); and

WHEREAS, the Pool was duly organized at an organizational meeting that took place at the New Hampshire Insurance Department ("Department") on July 14, 2005; and

WHEREAS, member insurers selected an initial board of directors ("Board") at the organizational meeting; and

WHEREAS, pursuant to RSA 420-K:4 I (c), "the standard health benefit plan, base reinsurance premium rates, and the rating methodology shall be submitted to the commissioner for approval within 45 days after the appointment of the board"; and

WHEREAS, the Department received, on behalf of the Pool's board a submission from Pool Administrators, Inc., ("PAI") and attached hereto; and

WHEREAS, the Department has reviewed this submission;

NOW comes the Department, with the following:

FINDINGS OF FACT:

1. Relative to the standard health benefit plan.

RSA 420-K:4 I (a) specifies that "the board shall develop a standard health benefit plan which shall contain benefit and cost sharing levels that reflect the health coverages most commonly sold by small employer carriers in the state." RSA 420-K:5 I specifies that "the pool shall reinsure the level of coverage provided up to, but not exceeding, the level of coverage provided in the standard health benefit plan or the actuarial equivalent thereof as defined and authorized by the board."

The Board contends that the most popular plans being sold by Board member companies appropriately represents benefit and cost sharing levels that reflect the health coverages most commonly sold by small employer health carriers in the state. According to PAI, the members of the Board account for more than 92% of the covered lives in the state's small group market based on the Department's most recently available statistics. At the request of the Board, PAI surveyed all of the Board members, as well as 4 other non-board member companies, requesting from each, a summary of benefits for each company's most commonly sold New Hampshire plans.

These plans were categorized into one of 4 categories: HMO, PPO, POS or Indemnity. The Board proposes that the use of a standard health benefit plan in each of these 4 categories would best meet the needs of the Pool. Further, the Board proposes standard health benefit plans that represent the richest, or most comprehensive set of coverages currently available in New Hampshire's small employer market. While the Board recognizes that using a comprehensive set of coverages for the standard health benefit plan design might increase the ceding premiums and assessment liabilities to its members, it felt that these costs were worth the trade-off to ceding carriers in terms of easing the reinsurance claims adjudication burden.

2. Relative to the base reinsurance premium rates

RSA 420-K:4 I (b) specifies that "the base reinsurance premium rates shall be set at levels which reasonable approximate gross premiums charged to small employers by small employer carriers for health benefit plans with benefits similar to the standard health benefit plan."

The Board developed a premium worksheet, a survey instrument, that was used to survey Board member companies. The worksheet requested the following items:

- Base pure premium PMPM for 3rd quarter 2005
- Product relativity factor to adjust base PMPM to standard health benefit plan
- Trend to adjust costs to the effective period beginning 1st quarter 2006

PAI used a common target loss ratio of 80% to gross up these pure premiums to gross premiums and then applied a conversion factor to convert per member per month premiums to per subscriber premiums.

The Board used the market-weighted average results of these calculations as the proposed base reinsurance premium rate for each of the proposed standard health benefit plans.

3. Rating Methodology

RSA 420-K:4 I (c) specifies that "the board shall establish a rating methodology for determining premium rates to be charged by the pool to reinsure small employer groups and individuals. The methodology shall include a system for classification of small employers that reflects the types of case characteristics commonly used by small employer carriers in establishing premium rates."

PAI, through its subcontractor, Milliman and Robertson Consulting Actuaries, Inc. ("Milliman"), on behalf of the Board, propose a rating methodology that begins with the proposed base reinsurance premium rates.

The first adjustment to the base reinsurance premium rates is to adjust for the reinsurance deductible. The reinsurance deductible is \$5000. For each of the proposed standard health benefit plans, Milliman, utilizing its *Health Cost Guidelines*[®], calculated an expected claim cost for each plan with and without the deductible. The ratio of the latter to the former was applied to the base reinsurance premiums.

The next adjustment was to reflect the statutorily proscribed multiples, 500% for ceded individuals and 150% for ceded groups.

The next set of adjustments were developed to reflect characteristics of the risk being ceded. For both individuals and groups, the only characteristic that is proposed to be recognized at this time is the attained ages of the risks being ceded. Milliman developed age factors for 5-year age bands with a total proposed variation of 5.1 to 1, in other words the ratio of the highest proposed factor to the lowest proposed factor (ignoring the child factor) is 5.1 to 1.

The next adjustment is a factor to convert the rates from a per subscriber basis to a per member basis. Milliman used its proprietary database to develop this factor.

The factors, as described above, were compiled into a table format and attached to the submission as Attachment 1. The ceding premium a carrier pays for any risk would be based on the standard health plan against which the carrier will be adjudicating its claims and the attained ages of the risks being ceded.

CONCLUSIONS:

When given an option, the Board seems to have consistently taken the option that leads to higher ceding premiums. The Board has chosen standard health benefit plan designs that afford the most comprehensive set of benefits that are statutorily permitted. The Board has established ceding premiums that include no adjustment for the loads built into the gross premiums by small employer carriers. The Board has established ceding premiums using demographic factors whose variation exceeds that which small employer carriers may use in rating small employer groups; the concern being that the ceding premium for older risks may be an even greater multiple of the premium that a small employer carrier is able to collect for that risk. The greater the difference between the ceding premium and the gross premium, the more unlikely it seems that a small employer carrier will use the Pool; the concern being that the Pool may not be fulfilling its purpose.

However, the Department understands, through its participation at the Board meetings, that some of these decisions have been made to ease the ceding carrier's administrative burdens. For example, the choice of a rich standardized health benefit plan design means carriers will not have to double adjudicate. The reinsurance claims to be considered by the Pool will, for the most part, be equal to the ceding carrier's claims less the reinsurance deductible. Other decisions may have been made to alleviate concerns regarding potential high assessments. For example, keeping the direct writer's loads in the development of ceding premiums would yield higher premium requirements, and in theory, require lower assessment calls.

The 3 items that have been submitted for approval seem to be an integral part of the Pool's plan of operation, and as such, the Department has decided to hold approval of these items until it has had an opportunity to hear the Board's proposed plan of operation.

In this way, the Department expects to gain a better understanding of how the Board's proposal for these items fits within the proposed plan and how all of these things support the Pool's mission. This will also enable interested parties to raise their concerns at the public hearing that will be held as required regarding the proposed plan of operation.

NOW, therefore, be it:

ORDERED, that any action relative to the standard health benefit plan(s), base reinsurance premium rates and the rating methodology be postponed until the Department's review of the proposed plan of operation.

So ordered,



Date: September 14, 2005

Roger A. Sevigny, Commissioner